

Message Text

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14-11

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 9179

C O N F I D E N T I A L LAGOS 4269

E.O. 11652: N/A

TAGS: BEXP, BMEP, ENRG, NI

SUBJECT: MAJOR PROJECT EARLY WARNING: GAS GATHERING SYSTEM

BEGIN UNCLASSIFIED

1. SUMMARY. NIGERIAN GOVERNMENT INTENDS TO INVEST \$650 MILLION AND CREATE STATE MONOPOLY TO DELIVER NATURAL GAS TO LNG PLANTS AND OTHER GAS UTILIZATION PROJECTS. TIME NOW RIPE FOR APPROACHES BY U.S. DESIGN/ENGINEERING FIRMS AND OPERATORS OF EXISTING GAS GATHERING, PIPELINE, AND MARKETING SYSTEMS WHO MIGHT BE INTERESTED IN SYSTEM CONSTRUCTION OR LONG-TERM MANAGEMENT ROLE. THE TOP TWO NIGERIANS PLANNING GAS GATHERING SYSTEM (AND LNG) WILL BE IN U.S. DURING JUNE. END SUMMARY.

2. NIGERIAN GOVERNMENT (FMG) ANNOUNCED FEBRUARY 1 THAT GAS FOR EACH OF TWO 1-BILLION CUBIC FEET PER DAY LIQUEFIED NATURAL GAS (LNG) PLANTS WILL BE SUPPLIED BY STATE OWNED AND OPERATED "INTEGRATED GAS GATHERING COMPANY" (LAGOS 01074). SUBSEQUENT NEGOTIATIONS WITH THE TWO GROUPS CHOSEN BY THE FMG TO INVEST IN AND OPERATE THE LNG PLANTS (SHELL-BP AND PHILLIPS/AGIP) HAVE CLARIFIED THAT THE FMG INTENDS TO OBTAIN GAS FROM ANY OR ALL OF THE OIL CONCESSION AREAS AND CONTROL ITS USE.

3. FMG IS NOW TAKING STEPS TO CREATE A NEW 100-PERCENT STATE-OWNED CORPORATION TENTATIVELY NAMED THE NATIONAL GAS COMPANY OF NIGERIA (NGCN) WHICH WILL GATHER THE GAS FROM FLOW STATIONS OF EXISTING OIL FIELDS, DRILL FOR AND DEVELOP SEPARATE GAS FIELDS, CONSTRUCT AND OPERATE PIPELINES TO THE TWO LNG PLANTS AND OTHER END-USERS (ELECTRICITY GENERATING STATIONS, PETROCHEMICAL COMPLEX, DIRECT

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REDUCTION STEEL MILL(S), AND A FEW INDUSTRIAL PLANTS). FMG

ESTIMATES THAT GAS SYSTEM ALONE (NOT INCLUDING LNG PLANTS AND OTHER END-USE PROJECTS) WILL COST \$650 MILLION TO CONTRUCT.

4. FYI. IN MOST RECENT MONTH OF PEAK OIL PRODUCTION (OCTOBER 1974), AVERAGE DAILY PRODUCTION WAS 2,324,310 BARRELS OF OIL AND 2,462,000 THOUSAND CUBIC FEET (MCF) OF ASSOCIATED NATURAL GAS FROM 103 SEPARATE FIELDS. ONLY 0.35 PERCENT OF THE GAS WAS USED TO POWER OILFIELD EQUIPMENT AND 0.99 PERCENT SOLD FOR ELECTRICITY GENERATION AND INDUSTRY; 98.66 PERCENT WAS FLARED. FMG NATURALLY WANTS TO GATHER AS MUCH AS POSSIBLE OF THE FLARE GAS BUT REALIZES SOME RESERVOIR GAS WILL HAVE TO BE PRODUCED TO PROVIDE REGULAR SUPPLY FOR THE LNG PLANTS. END FYI.

5. IMEG, A BRITISH FIRM WITH GAS PIPELINE EXPERIENCE IN IRAN AND ELSEWHERE, WAS RETAINED LAST YEAR BY FMG AS CONSULTANTS ON LNG. IMEG STILL ASSISTS FMG IN THE NEGOTIATIONS WITH SHELL-BP AND PHILLIPS/AGIP AND HAS ALSO BEEN ASKED TO MAKE SOME PRELIMINARY PLANS FOR THE GAS GATHERING SYSTEM, IMEG CAN BE EXPECTED TO SEEK A ROLE IN THE DESIGN, CONSTRUCTION, AND OPERATING PHASES OF THE PROJECT, BUT, ACCORDING TO NIGERIAN OFFICIALS, THERE IS NO COMMITMENT TO IMEG, AND NGCN WILL IN FACT INVITE OTHER COMPANIES TO MAKE PROPOSALS FOR SUCH CONTRACTS. THEY SAY THE APPROACHES BY EXPERIENCED U.S. DESIGN/ENGINEERING FIRMS AND OPERATORS OF EXISTING GAS GATHERING, PIPELINE, AND MARKETING SYSTEMS WOULD BE WELCOME AS SOON AS POSSIBLE. WORKING LEVEL OFFICIALS ARE OF COURSE ANXIOUS TO GET THE PROJECT MOVING AND SO WISH TO HAVE SUCH CONTACTS IN IMMEDIATE FUTURE.

6. OPPORTUNITY FOR CONTACTS BY U.S. FIRMS EXISTS NEXT MONTH DURING AND IMMEDIATELY AFTER TWO WEEK PERIOD (JUNE 9-20) WHEN THE TOP TWO NIGERIANS CURRENTLY RESPONSIBLE FOR ALL ASPECTS OF GAS UTILIZATION WILL BE ATTENDING A SHORT COURSE ON GAS THECNOLOGY AT UNIVERSITY OF OKLAHOMA IN NORMAN. THEY ARE S.M. AKPE, MINISTRY OF MINES ANW POWER, AND DR. E.C. IBE, NIGERIAN NATIONAL OIL CORPORATION (NNOC), AND MAY BE CONTACTED THROUGH PROF. W. KINNEBREW, DIRECTOR, CENTER FOR CONTINUING EDUCATION.

7. COMMENT. EMBASSY REPORTING AND USG PROMOTION HAVE TO DATE FOCUSED ON FOREIGN INVESTMENT IN LNG PRODUCTION FACILITIES AND CONFIDENTIAL

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ON GOODS AND SERVICES TO BE SUPPLIED TO THE LNG ANG OTHER GAS-UTILIZATION PROJECTS. GAS GATHERING HAS ONLY RECENTLY BEEN IDENTIFIED AS AN INTIMATELY RELATED BUT SEPARATELY ADMINISTERED PROJECT OF ITS OWN. SEVERAL U.S. PIPELINE CONTRACTORS PRESENT IN NIGERIA (E.G. MCDERMOTT, SEDCO-BEAN, WILLIAMS COMPANIES) ALREADY HAVE THEIR EYE ON GAS PIPELINE CONSTRUCTION, BUT, TO EMBASSY'S KNOWLEDGE, U.S. DESIGN/ENGINEERING FIRMS HAVE NOT FOCUSED ON THE GAS GATHERING SYSTEM AS A SEPARATE OPPORTUNITY, AND OPERATORS

OF GAS SYSTEMS IN U.S. (WHO ARE THE WORLD'S MOST EXPERIENCED AND CAPABLE COMPANIES BUT, UNLIKE THE OIL COMPANIES, ARE DOMESTICALLY ORIENTED) ARE PROBABLY UNAWARE OF THE FMG'S PLANS. EMBASSY CANNOT TELL IN ADVANCE WHETHER U.S. FIRMS WOULD CONSIDER OPERATION OF A GAS SYSTEM UNDER CONTRACT TO THE FMG TO BE SUFFICIENTLY ATTRACTIVE TO MERIT THEIR CONSIDERATION, BUT APPROPRIATE FIRMS OUGHT TO BE MADE AWARE OF THE VARIOUS OPPORTUNITIES WHICH ARE EVOLVING HERE.

8. ACTION REQUESTED. DEPARTMENT OF COMMERCE SHOULD ALERT APPROPRIATE COMPANIES TO THESE OPPORTUNITIES. THEY COULD OBTAIN ADDITIONAL INFORMATION FROM HORSE'S MOUTH BY CONTACTING AKPE AND IBE IN OKLAHOMA. (LATTER -- WHO HAS PH.D. FROM M.I.T. -- SAYS HE AND OR AKPE WOULD CONSIDER MAKING VISITS TO A FEW INTERESTED FIRMS IMMEDIATELY FOLLOWING THE COURSE AT NORMAN SUBJECT ONLY TO TIMING OF MEETINGS ON LNG WHICH PHILLIPS MIGHT ARRANGE FOR THIRD WEEK OF JUNE.) CONTENTS OF THIS MESSAGE SHOULD ALSO BE RELAYED TO AMAN R. KHAN (PHONE 312/225-4380), EXECUTIVE VICE PRESIDENT, GAS DEVELOPMENTS CORPORATION (AN INSTITUTE OF GAS TECHNOLOGY SUBSIDIARY), WHO WROTE EMBOFF APRIL 15 THAT "WE ARE DEFINITELY INTERESTED IN PARTICIPATING IN NIGERIA'S GAS DEVELOPMENT PLANS AND EVALUATIONS." END UNCLASSIFIED, BEGIN CONFIDENTIAL

9. COMMENT. AS DEPARTMENT AWARE FROM SEPARATE REPORTING (CF. LAGOS 01780), FMG PLAN TO USURP ALL NATURAL GAS IS UPSETTING TO THE FOREIGN OIL COMPANIES (SHELL-BP, GULF, MOBIL, AGIP/PHILLIPS, ELF, AND TEXACO/CHEVRON) WHO DISCOVERED THE GAS AND HAVE HOPED TO REALIZE PROFIT FROM ITS EXPLOITATION. U.S. FIRMS ENTERING PICTURE FOR FIRST TIME SHOULD BE CAUTIONED THAT SITUATION IS CONTROVERSIAL AND FLUID. IN THE END, OF COURSE, FMG HAS THE AUTHORITY TO CREATE SYSTEM OF ITS OWN CHOOSING. FURTHER CAUTION PERTAINS TO VIABILITY OF LNG PROJECTS WHICH FMG STILL BELIEVES WILL DEPEND CONFIDENTIAL

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ON AVAILABILITY OF U.S. MARKET. IF FOR ANY REASON U.S. MARKET UNAVAILABLE (SEE STATE 069117), NIGERIAN LNG PROJECTS AND GAS GATHERING SYSTEM WILL PROBABLY BE CUT BACK OR DELAYED. CROSBY

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